Sask. gets warmth from Alberta's overheated economy

Sharing the burdens of success might ease stresses here, says ATB economist

Gary Lamphier , The Edmonton Journal
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CALGARY - Todd Hirsch calls Saskatchewan "the new Alberta."

Even as the prairie province's energy, mining, construction and agricultural sectors surge ahead, he notes, a variety of factors are conspiring to slow growth in Canada's traditional economic powerhouse.

"We don't have exact numbers yet, but we're definitely seeing a slowing trend in Alberta from 2006 to 2007 and again into 2008," says ATB Financial's erudite senior economist, over a coffee at Calgary's Bankers Hall.

"The (impact of higher energy) royalties are going to be a part of that, but there's a lot of other factors, too. Even now, for all the key economic indicators -- retail sales, auto sales, housing prices -- Saskatchewan is leading, and Alberta is second, year over year."

For some, the prospective loss of economic bragging rights to Saskatchewan -- where voters were set to go to the polls Wednesday to elect a new provincial government -- is profoundly unsettling. Maybe even a sign of Alberta's pending economic decline.

But Hirsch isn't losing any sleep over it. Like many observers, he figures Alberta's long-overheated economy could use a breather, as chronic labour shortages, soaring inflation and slowing in-migration levels wreak havoc on companies inside and outside the oilpatch.

"For the last three quarters, Alberta has lost people to Saskatchewan, reversing the trend of the past decade. Now, with house prices falling, that's an alarm bell for many people. If we can't attract and retain workers, we're going to be in real trouble," he says.

Although Alberta's energy sector has made investors and oilpatch execs rich, poured billions into provincial coffers and enabled suppliers, rig workers and oilsands crews to pocket fat wage gains, other sectors of the economy are paying a hefty price for it, Hirsch argues.

Example: one recent Friday evening, he took a group of visitors from Ottawa out to dinner at a well-known restaurant on Calgary's Stephen Avenue Walk. "The restaurant was only a third full, but they turned us away," he says. "They couldn't serve us because they had no staff."

Such stories have become almost commonplace in Alberta's foodservice, retail and hotel sectors, of course.

But even higher-paying jobs are going begging, as the oil and gas sector robs other industries of talent.

"Schools like NAIT are losing welding instructors to the machine shops that are fabricating equipment for large oilsands projects, because they can't compete on salaries," says Hirsch.

"Meanwhile there's this big outcry, 'Oh, we need post-secondary training, and more money for NAIT.' Well guess what, they can't hire instructors because of the runaway energy sector."

Art Price, CEO of Axia NetMedia, a successful Calgary-based broadband communications firm, echoes Hirsch's comments.

Alberta is actually comprised of two economies, not one, he says. And while the province's oil and gas economy has grown exponentially -- notwithstanding the slowdown in drilling this year -- the non-energy economy has increasingly found itself fighting an uphill battle.

"Nobody is really talking about the other economy. It's having all kinds of challenges," says Price, a former CEO of Husky Energy.

"It's competing for people the oil and gas guys pay way more money for, and for services the oil and gas guys pay way more money for. For many companies, their whole cost structure has gone way up, but their revenue structure hasn't. So they're under a lot of pressure," he says.

Despite the short-term pain, Price figures the economy will adjust, as it always has, and Alberta will soon resume its rapid upward growth trajectory. Hirsch is equally sanguine about the province's economic growth prospects.

"Compared to any point in Alberta's history, we're probably best able to absorb (higher royalties, and an economic slowdown) now," he says.

"If unemployment was at eight or nine per cent, it would be a really tough blow. But we're still hearing all these reports that the construction sector is going to be short 150,000 (workers) in the next five years. Well, if the energy sector is laying off 30,000, it's all about absorption," he adds.

"Yes, there's going to be layoffs, undeniably. And I wouldn't want to be one of those people in the energy patch who's been laid off. But from a macro economic perspective, the question is, how well can the Alberta economy absorb that?"

According to most indicators, the answer is very well indeed.

You've gotta love analysts. They can spin gold out of clay, and find the silver lining behind every dark cloud. Consider General Motors Corp.'s staggering $39 billion US third-quarter loss.

Bad news, right? Well, not that bad, according to JP Morgan analyst Himanshu Patel. Despite the "messy" results, he told Reuters, GM's auto business actually performed "better than we expected."

I'm so glad for that, really. Almost as glad that I'm not a GM shareholder.

glamphier@thejournal.canwest.com

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